



RESIDENTIAL UTILITY CONSUMER OFFICE

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Janice K. Brewer
Governor

Jodi A. Jerich
Director

October 9, 2009

Mr. Ilya Riske
Governor's Office of Strategic Planning and Budgeting
1700 W. Washington
Phoenix, Arizona 85007

Re: Plan for Additional 15% Reduction for FY2010

Dear Ilya:

Thank you for the opportunity to provide you with viable options for reducing the RUCO FY2010 budget.

According to Ms. Klein's September 18, 2009 letter, you request information how RUCO could reduce its FY2010 by and additional 15%. **That amount equates to \$196,305.**

Laws 2009, Chapter 12, Section 88 appropriated \$1,302,000 to RUCO from the RUCO Revolving Fund. Section 110 swept \$219,400 from the RUCO Revolving Fund to the General Fund.¹ This first fund sweep leaves RUCO a balance of \$1,082,600 for FY2010 from which to sweep the additional \$196,305. Sweeping the additional \$196,305 results in a 32% total reduction to RUCO's FY2010 available funds.

As you know, RUCO is funded from assessments from large utility companies. These funds are deposited into the RUCO Revolving Fund. This assessment is passed along to their ratepayers through increased rates. RUCO's assessment results in pennies per household per year. For that money, RUCO's efforts produce millions of dollars of savings on their utility bills every year for these same families.

¹ While the General Appropriations Act did not require RUCO to transfer these funds until the end of the fiscal year, RUCO has already transferred the full amount.

In order to increase the amount of money that is shifted from RUCO into the general fund, legislation cannot decrease the amount appropriated to RUCO from the RUCO Revolving Fund. Instead, it must maintain the appropriation and then sweep a larger amount from the RUCO Revolving Fund into the general fund.²

Over the last year, RUCO has significantly reduced its expenses. While our workload has increased, we are doing more with less. Two of the highest paying positions are vacant and will remain vacant resulting in a 20% reduction of RUCO's workforce. We have reduced discretionary operating expenses and are always looking for further reductions. However, as you know, the vast majority of our expenses are either (1) FTEs or (2) payments to DOA for rent, phones, etc.³

The September 18 letter asks the agencies to "prioritize services." However, RUCO offers only a single service – to litigate cases before the Arizona Corporation Commission on behalf of Arizona families and individuals. Reductions to the RUCO budget reduces the number of cases in which we participate.

15% Reduction Proposal

Due in large part to our past efforts to permanently reduce expenses, RUCO estimates that it will have a cash surplus at the end of the fiscal year that will meet the additional 15% sweep target. **However**, this sweep will not be sustainable in FY2011 because the surplus is partially the result of a sizeable carry forward from previous years. A copy of RUCO's cash flow analysis spreadsheet is attached to this email.

I understand the desire to make permanent cuts in FY2010 and this is not a permanent cut. RUCO is up for sunset review this upcoming session and it is possible that the Legislature may choose not to continue this agency. Insisting on permanent cuts beginning January 1, 2010 instead of simply sweeping our projected FY2010 surplus would result in:

- A 50% reduction in our attorney positions.
(Eliminating 1 of the 2 attorney positions)
- A 66% reduction in our financial analyst positions.
(Eliminating 2 of the 3 financial analyst positions.)

² Sweeping funds in amounts that result in a reduction of RUCO services results in the households paying for a service that they will not receive.

³ RUCO could save money if it were able to negotiate for its own phone service. Right now, it would be cheaper to give all my employees cell phones than to continue to pay ADOA for the current sub-par service. With the collapse of the Phoenix commercial real estate market, RUCO could easily find space less expensive than the rent charged by ADOA.

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Including the 20% work force reduction already absorbed by RUCO, this would result in a 50% reduction in RUCO's FTEs, leaving RUCO with its administrative staff and very few professional positions.

RUCO would have to immediately withdraw itself from several matters of pending litigation and cancel contracts with its special witnesses for those cases. This is particularly illogical if RUCO would ultimately be repealed on June 30, 2010 and the 15% sweep can be met in FY2010 by sweeping RUCO's surplus funds.

If RUCO is repealed, we can wind down our operations by June 30, 2010 and continue to participate in our currently pending cases but not take any new cases. If RUCO is continued, then the following section offers a proposal for permanent, sustained reductions for FY2011.

Need for Statutory Change for FY2011 in the FY2011 General Appropriations Act

Every year, RUCO's appropriation contains a special line item of \$145,000 to be used solely to hire special witnesses. For FY2011, my recommendation is to reduce or eliminate the use of special witnesses rather than reduce permanent RUCO staff. The result would be the same: a reduction in the number of cases in which RUCO participates. However, the remaining RUCO funds would be used to pay Arizonans instead of out of state contractors. To accomplish this, the FY2011 budget would maintain the total appropriation amount of \$1.3 million, but sweep a larger amount from the RUCO Revolving Fund, and the amount of the special line item would be reduced by a corresponding amount or, most likely, entirely eliminated.

In FY2011, a 15% sweep of a \$1,302,000 appropriation is \$195,300. In FY2010, RUCO is projected to incur costs of \$1,166,100 resulting in a \$135,900 surplus. By keeping expenses down to \$1,166,100 and eliminating the \$145,000 special witness line item would create a total surplus of \$280,900 available to be swept. This amount results in over a 22% sweep of RUCO funds in FY2011.

Thank you.

Sincerely,

Jodi A. Jerich